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September 2, 2008

VIA ELECTRONIC MAIL AND HAND DELIVERY

Mr. Charles L.A. Terreni
Chief Clerk/Administrator
Public Service Commission of South Carolina
101 Executive Center Dr., Suite 100
Columbia, SC 29210

VIA ELECTRONIC MAIL AND OVERNIGHT MAIL

Mr. David R. Carpenter
Director – Rates
Piedmont Natural Gas Company, Inc.
Piedmont Town Center
4720 Piedmont Row Drive
Charlotte, NC 28210

Re: Report of Office of Regulatory Staff Examination of Piedmont Natural Gas Company's Monitoring Report Under **CHAPTER 5, TITLE 58 CODE OF LAWS OF SOUTH CAROLINA, ARTICLE 4** ("the Natural Gas Rate Stabilization Act" or "the Act") for the Twelve-Month Period Ending March 31, 2008

Docket No. 2005-125-G

Gentlemen:

The South Carolina Office of Regulatory Staff ("ORS"), in accordance with the Natural Gas Rate Stabilization Act, S.C. Code Ann §§ 58-5-400, et seq. (Supp. 2007), ("RSA" or "The Act"), conducted an examination of Piedmont Natural Gas Company's (hereafter "Piedmont" or "the Company") Monitoring Report for the twelve-month period ended March 31, 2008. Said examination was conducted for the purpose of determining the Company's compliance with Section 58-5-430 and Section 58-5-440 of the Act.

The Company reported in its March 31, 2008, Quarterly Monitoring Report a Rate of Return and Return on Equity of 10.17% and 11.64%, respectively. The Company's calculation of additional revenue requirements totaled \$5,302,089 consisting of a \$1,953,502 Margin Increase accompanied by a \$3,348,587 adjustment for Demand Cost Under-Recovery.

Based upon its examination, the Office of Regulatory Staff is proposing certain adjustments (see Schedule 2) to reported amounts in order to bring the report into conformance with Section 58-5-430 and Section 58-5-440 of the Act.

As a result of the foregoing adjustments, the Office of Regulatory Staff calculated the Company's Rate of Return and Return on Common Equity as 9.76% and 11.96%, respectively. Therefore, in accordance with the guidelines of the Act, the Company is entitled to an increase in rates sufficient to achieve a Return on Equity equaling 12.60%. Accordingly, ORS recommends that the Company be authorized a net increase to revenues of \$4,632,717. This increase is comprised of a recommended margin increase of \$1,280,000 and an adjustment of \$3,352,717 for Demand Cost Under-Recovery. After the proposed increase, the Company's Rate of Return and Return on Equity will be 10.13% and 12.60%, respectively.

The following is a summary of the Dockets relative to the Company's most recent rate adjustments:

Date of Order	Docket Number	Amount Requested	Amount Granted	<u>Rates of Return</u>	
				Rate Base	Common Equity
11/07/95	1995-715-G	\$ 8,827,414	\$7,807,207	10.77%	12.50%
11/01/02	2002-63-G	\$15,336,891	\$8,381,220	10.39%	12.60%
10/21/05	2005-125-G	\$ 4,672,048	\$1,387,964	10.34%	12.60%
09/27/06	2005-125-G	\$11,249,086	\$6,533,885	9.48%	11.20%
10/12/07	2005-125-G	\$1,795,575	(\$709,140)	9.35%	11.20%

The following is a description of Schedules prepared by ORS as a result of its review of the Company's filing:

Schedule 1 presents the Company's Operating Experience, Rate Base and Rates of Return for the year ended March 31, 2008, and ORS's accounting and pro forma adjustments which are necessary to correct or normalize the Company's operations both before and after the effect of the requested increase. Utilizing a rate base of \$219,516,967 and per book income of \$20,071,187 ORS computed a Rate of Return on per book operations of 9.14% with an accompanying Return on Equity of 10.86%. ORS's accounting and pro forma adjustments increased Operating Income to \$21,314,251 and decreased rate base to \$218,279,484. The Return on Equity computed by ORS after accounting and pro forma adjustments was 11.96%. After the adjustments for the Proposed Margin Increase of \$1,280,000 and the Demand Cost Under-Recovery of \$3,352,717, operating income increased to \$22,103,747. The Rate of Return on rate base computed by ORS after the

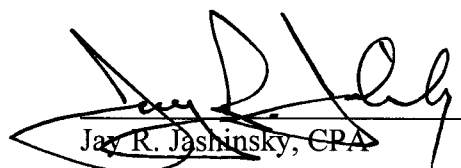
adjustments for the proposed increases is 10.13% with a corresponding Return on Equity of 12.60%.

Schedule 2 presents an explanation of the accounting and pro forma adjustments ORS considers necessary for the Company's report to conform with Section 58-5-430 and Section 58-5-440 of the Act. For comparative purposes, the adjustments of both the Company and ORS are presented.

Schedule 3 presents the calculation of the average weighted cost of capital used by the Company in calculating its Return on Equity both before and after its proposed increase. The rate base, as shown on Schedule 1, is allocated between long term debt and equity according to the respective ratios as computed using the Company's average weighted capital structure. The amount of total income for return necessary to cover an embedded cost rate of 6.91% on long term debt is computed to be \$6,561,154. The remainder of the total income for return of \$14,753,097 is income to common equity. Such remainder produced a return of 11.96% on common equity. The overall cost of capital after accounting and pro forma adjustments but prior to the requested increase is 9.76%. Such overall cost of capital equals the rate of return on rate base shown on Schedule 1.

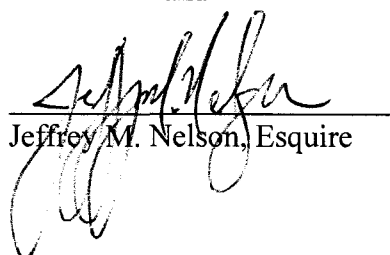
After the proposed increase of \$4,632,717 for the Proposed Margin Increase and Demand Cost Under-recovery, income available to common equity is \$15,542,593 and return on common equity is 12.60%. Overall cost of capital as detailed in Schedule 3 equals 10.13%. Such overall cost of capital equals the rate of return on Schedule 1.

Respectfully submitted by,



Jay R. Jashinsky, CPA

- and -



Jeffrey M. Nelson, Esquire

Piedmont Natural Gas Company
South Carolina Operations
Net Operating Income and Rate of Return
For the Twelve Months Ended March 31, 2008
Docket No. 2005-125-G

	(1) Per Regulatory Books	(2) ORS Accounting and Pro Forma Adjustments	(3) ORS As Adjusted	(4) Adjustments for Proposed Margin Increase	(5) Adjustments for Demand Cost Under-Recovery	(6) Total After Proposed Rates
<u>Operating Revenues</u>						
1 Sale and Transportation of Gas	\$ 206,032,090	\$ 16,285,399 (1)	\$ 222,317,489	\$ 1,280,000 (12)	\$ 3,352,717 (18)	\$ 226,950,206
2 Other Operating Revenues	1,008,185	0	1,008,185			1,008,185
3 Total Operating Revenues	<u>207,040,275</u>	<u>16,285,399</u>	<u>223,325,674</u>	<u>1,280,000</u>	<u>3,352,717</u>	<u>227,958,391</u>
<u>Operating Expenses</u>						
4 Cost of Gas	132,492,666	13,460,456 (2)	145,953,122		3,330,837 (19)	149,283,959
5 Operations and Maintenance	30,022,641	(718,242) (3)	29,304,399	2,366 (13)	6,196 (20)	29,312,961
6 Depreciation	11,534,194	426,431 (4)	11,960,625			11,960,625
7 General Taxes	5,424,004	626,574 (5)	6,050,578	5,988 (14)	15,684 (21)	6,072,250
8 State Income Taxes	977,048	201,634 (6)	1,178,682	63,583 (15)		1,242,265
9 Federal Income Taxes	6,761,503	1,053,612 (7)	7,815,115	422,823 (16)		8,237,938
10 Amortization of Investment Tax Credits	(58,764)		(58,764)			(58,764)
11 Total Operating Expenses	<u>187,153,292</u>	<u>15,050,465</u>	<u>202,203,757</u>	<u>494,760</u>	<u>3,352,717</u>	<u>206,051,234</u>
12 Net Operating Income	19,886,983	1,234,934	21,121,917	785,240	0	21,907,157
13 Interest on Customers' Deposits	(130,485)		(130,485)			(130,485)
14 Amortization of Debt Redemption Premium	(14,673)	334 (8)	(14,339)			(14,339)
15 Allowance for Funds Used During Construction	222,677		222,677			222,677
16 Customer Growth	106,685	7,796 (9)	114,481	4,256 (17)		118,737
17 Net Operating Income for Return	<u>\$ 20,071,187</u>	<u>\$ 1,243,064</u>	<u>\$ 21,314,251</u>	<u>\$ 789,496</u>	<u>\$ 0</u>	<u>\$ 22,103,747</u>
<u>Original Cost Rate Base:</u>						
18 Plant in Service	\$ 372,530,464	\$ (1,110,892) (10)	\$ 371,419,572			\$ 371,419,572
19 Accumulated Depreciation	(139,772,389)		(139,772,389)			(139,772,389)
20 Net Plant in Service	232,758,075	(1,110,892)	231,647,183			231,647,183
Add:						
21 Construction Work in Progress	4,773,647		4,773,647			4,773,647
22 Materials and Supplies	21,049,170		21,049,170			21,049,170
23 Cash Working Capital	1,521,008	(126,591) (11)	1,394,417			1,394,417
Deduct:						
24 Customers' Advances	0		0			0
25 Customers' Deposits	4,169,068		4,169,068			4,169,068
26 Accumulated Deferred Income Taxes	36,049,549		36,049,549			36,049,549
27 Unclaimed Funds	366,316		366,316			366,316
28 Original Cost Rate Base:	<u>\$ 219,516,967</u>	<u>\$ (1,237,483)</u>	<u>\$ 218,279,484</u>			<u>\$ 218,279,484</u>
29 Rate of Return	<u>9.14%</u>		<u>9.76%</u>			<u>10.13%</u>
30 Return on Equity	<u>10.86%</u>		<u>11.96%</u>			<u>12.60%</u>

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
Twelve Months Ended March 31, 2008
Docket No. 2005-125-G

Line No.	Description	Per Piedmont	Per ORS
1	<u>Operating Revenues - Sale and Transportation of Gas</u>		
	To increase revenues on a going-level basis.	\$ 16,285,399	\$ 16,285,399
	<u>Total Operating Revenues - Sale and Transportation of Gas</u>	<u>\$ 16,285,399</u>	<u>\$ 16,285,399</u>
2	<u>Cost of Gas</u>		
	To increase cost of gas on a going-level basis.	\$ 13,460,456	\$ 13,460,456
	<u>Total Cost of Gas</u>	<u>\$ 13,460,456</u>	<u>\$ 13,460,456</u>
3	<u>Operations and Maintenance Expenses</u>		
a.	To annualize the payroll expense as of March 31, 2008, and to disallow officer salary increases in conformance with PSC Order No. 2002-761, dated November 1, 2002.	\$ (373,143)	\$ (373,143)
b.	To increase expenses for the salary and payroll investment plan. The plan allows participants to defer a portion of their base salary and the Company matches a portion of the participant's contribution.	55,254	28,472
c.	Adjustment 3 c. not used by Company.		
d.	To adjust pension costs included in the filing.	(462,945)	(462,945)
e.	To adjust uncollectible gas cost expense utilizing the method recently approved in Docket No. 2006-4-G, Order No. 2006-527, dated October 11, 2006. This removes uncollectible gas cost expense from base rates and records the amount in account #253.04. The applicable uncollectible gas cost rate is .18482%.	(78,401)	(186,841)
f.	To decrease expenses for allocations to non-utility activities.	(26,086)	(26,124)
g.	To increase expenses for the Long-Term Incentive Plan.	318,194	319,692
h.	To adjust expenses for the Short-Term Incentive Plan.	6,691	(85,129)
i.	To decrease expenses for the MVP Incentive Plan.	(23,594)	(23,594)

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
Twelve Months Ended March 31, 2008
Docket No. 2005-125-G

<u>Line No.</u>	<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
j.	To increase expenses for group insurance as projected.	101,900	101,900
k.	To increase expenses for the Piedmont Town Center lease.	3,505	3,505
l.	To decrease expenses for the South Carolina assessment fee.	(8,660)	(7,338)
m.	To decrease expenses for items that are nonallowable for ratemaking purposes.	(137,655)	(137,655)
n.	To increase expenses for amortization of early retirement incentive.	149,759	151,230
o.	To increase expenses for IT projects	55,917	55,917
p.	To decrease expenses for nonallowable consulting fees	0	(76,189)
	<u>Total Operations and Maintenance Expense</u>	\$ (419,264)	\$ (718,242)
4	<u>Depreciation Expense</u>		
	To increase depreciation expense on a going-level basis using recently completed depreciation study rates.	\$ 491,751	\$ 426,431
	<u>Total Depreciation Expense</u>	\$ 491,751	\$ 426,431
5	<u>General Taxes</u>		
a.	To increase property taxes on a going-level basis.	\$ 643,372	\$ 643,372
b.	To adjust payroll tax expense.	(92,824)	(92,979)
c.	To increase franchise taxes (rate of .3%) and gross receipts tax (rate of .16779%) for the adjustment made to increase revenues on a going-level basis.	0	76,181
	<u>Total General Taxes</u>	\$ 550,548	\$ 626,574
6	<u>State Income Taxes</u>		
	To adjust state income taxes (rate of 5%) to reflect the impact on income of accounting and pro forma adjustments.	\$ 190,975	\$ 201,634
	<u>Total State Income Taxes</u>	\$ 190,975	\$ 201,634

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
Twelve Months Ended March 31, 2008
Docket No. 2005-125-G

<u>Line No.</u>	<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
7	<u>Federal Income Taxes</u>		
	To adjust federal income taxes (rate of 35%) to reflect the impact on income of accounting and pro forma adjustments.	\$ 982,727	\$ 1,053,612
	<u>Total Federal Income Taxes</u>	<u>\$ 982,727</u>	<u>\$ 1,053,612</u>
8	<u>Amortization of Debt Redemption Premium</u>		
	To increase net operating income for amortization of debt redemption premium.	\$ 334	\$ 334
	<u>Total Amortization of Debt Redemption Premium</u>	<u>\$ 334</u>	<u>\$ 334</u>
9	<u>Customer Growth</u>		
	To increase net operating income to reflect anticipated customer growth (rate of .542%) following the adjustments to operating revenues and expenses.	\$ 5,551	\$ 7,796
	<u>Total Customer Growth</u>	<u>\$ 5,551</u>	<u>\$ 7,796</u>
10	<u>Plant in Service</u>		
	To adjust plant in service to reflect the appropriate South Carolina allocation percentages.	\$ 0	\$ (1,110,892)
	<u>Total Plant in Service</u>	<u>\$ 0</u>	<u>\$ (1,110,892)</u>
11	<u>Cash Working Capital</u>		
	To decrease cash working capital following the pro forma adjustments to operation and maintenance expenses (rate of 12.5%) as reflected in the Original Filing.	\$ (52,408)	\$ (126,591)
	<u>Total Cash Working Capital</u>	<u>\$ (52,408)</u>	<u>\$ (126,591)</u>
12	<u>Operating Revenues - Sale and Transportation of Gas</u>		
	To increase revenues from the sale and transportation of gas for the proposed margin increase. ORS has recalculated this adjustment utilizing all ORS adjustments to operating revenues.	\$ 1,953,502	\$ 1,280,000
	<u>Total Operating Revenues - Sale and Transportation of Gas</u>	<u>\$ 1,953,502</u>	<u>\$ 1,280,000</u>

Piedmont Natural Gas Company
 South Carolina Operations
 Explanations of Accounting and Pro Forma Adjustments
 Twelve Months Ended March 31, 2008
 Docket No. 2005-125-G

Line No.	Description	Per Piedmont	Per ORS
13	<u>Operations and Maintenance Expenses</u>		
	a. To adjust the provision for uncollectible accounts (.18482%) for the proposed margin increase.	\$ 4,563	\$ 2,366
	b. To increase the utility license fee (rate of .3%) following the adjustment to operating revenues.	5,847	0
	<u>Total Operations and Maintenance Expenses</u>	<u>\$ 10,410</u>	<u>\$ 2,366</u>
14	<u>General Taxes</u>		
	To adjust franchise taxes (rate of .3%) and gross receipts tax (rate of .16779%) for the proposed margin increase.	\$ 0	\$ 5,988
	<u>Total General Taxes</u>	<u>\$ 0</u>	<u>\$ 5,988</u>
15	<u>State Income Taxes</u>		
	To adjust state income taxes (rate of 5%) to reflect the impact on income from the proposed margin increase.	\$ 97,155	\$ 63,583
	<u>Total State Income Taxes</u>	<u>\$ 97,155</u>	<u>\$ 63,583</u>
16	<u>Federal Income Taxes</u>		
	To adjust federal income taxes (rate of 35%) to reflect the impact on income from the proposed margin increase.	\$ 645,849	\$ 422,823
	<u>Total Federal Income Taxes</u>	<u>\$ 645,849</u>	<u>\$ 422,823</u>
17	<u>Customer Growth</u>		
	To adjust net operating income to reflect anticipated customer growth (rate of .54%) following the proposed margin increase.	\$ 6,480	\$ 4,256
	<u>Total Customer Growth</u>	<u>\$ 6,480</u>	<u>\$ 4,256</u>
18	<u>Operating Revenues - Sale and Transportation of Gas</u>		
	To increase the revenue requirement for the sale and transportation of gas associated with demand cost under-recovery.	\$ 3,348,587	\$ 3,352,717
	<u>Total Operating Revenues - Sale and Transportation of Gas</u>	<u>\$ 3,348,587</u>	<u>\$ 3,352,717</u>

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
Twelve Months Ended March 31, 2008
Docket No. 2005-125-G

Line No.	Description	Per Piedmont	Per ORS
19	<u>Cost of Gas</u>		
	To increase cost of gas for the demand cost under-recovery using a demand cost allocation factor of 16.16%, based upon the most recent design day study.	\$ 3,330,837	\$ 3,330,837
	<u>Total Cost of Gas</u>	<u>\$ 3,330,837</u>	<u>\$ 3,330,837</u>
20	<u>Operations and Maintenance Expenses</u>		
a.	To increase the provision for uncollectible accounts (rate of .18482%) following the adjustment to revenues for demand cost under-recovery.	\$ 7,781	\$ 6,196
b.	To increase the franchise taxes (rate of .3%) following the adjustments to revenues for demand cost under-recovery.	9,969	0
	<u>Total Operations and Maintenance Expenses</u>	<u>\$ 17,750</u>	<u>\$ 6,196</u>
21	<u>General Taxes</u>		
	To increase the franchise taxes (rate of .3%) and gross receipts tax (rate of .16779%) for the adjustment made to revenues for demand cost under-recovery.	\$ 0	\$ 15,684
	<u>Total General Taxes</u>	<u>\$ 0</u>	<u>\$ 15,684</u>

**Piedmont Natural Gas Company
South Carolina Operations
Average Weighted Cost of Capital
Docket No. 2005-125-G**

Schedule 3

<u>Description</u>	<u>Capital Structure</u>	<u>Ratio</u>	<u>Regulatory Per Books</u>				<u>As Adjusted</u>				<u>After Proposed Increase</u>			
			<u>Rate Base</u>	<u>Embedded Cost/Return</u>	<u>Overall Cost/Return</u>	<u>Income For Return</u>	<u>Rate Base</u>	<u>Embedded Cost/Return</u>	<u>Overall Cost/Return</u>	<u>Income For Return</u>	<u>Rate Base</u>	<u>Embedded Cost/Return</u>	<u>Overall Cost/Return</u>	<u>Net Operating Income</u>
Long-Term Debt	766,971,002	43.50%	95,489,881	6.91%	3.01%	6,598,351	94,951,576	6.91%	3.01%	6,561,154	94,951,576	6.91%	3.01%	6,561,154
Common Equity	996,180,726	56.50%	124,027,086	10.86%	6.13%	13,472,836	123,327,908	11.96%	6.75%	14,753,097	123,327,908	12.60%	7.12%	15,542,593
Total	1,763,151,728	100.00%	219,516,967		9.14%	20,071,187	218,279,484		9.76%	21,314,251	218,279,484		10.13%	22,103,747